

# FOR ESIGHT

A PUBLICATION OF THE KENTUCKY LONG-TERM POLICY RESEARCH CENTER VOL. 10 NO. 2 2003

## State Efforts to Insure the Uninsured: An Unfinished Story

By Susan Marquis and Stephen Long

### KEY FINDINGS:

- Regulatory reform did not increase the number of small businesses offering insurance.
- Health insurance purchasing alliances also had little effect.
- Subsidizing public insurance expands coverage, but large reductions in the uninsured would require large subsidies.
- Expanding public insurance causes some individuals to replace private insurance with public coverage, increasing the costs of public programs.
- Expanding the safety net might be more effective in improving the health of some disadvantaged populations than providing insurance would be.

About 41 million Americans—one in seven adults—were uninsured in 2001. There is convincing evidence that being uninsured adversely affects access to health care, and an overwhelming majority of the American public views the problem of the uninsured as a significant policy issue.

Over the past decade, the states have been the laboratories for trying new approaches to insuring the uninsured. These include regulatory reform, adopting purchasing alliances, expanding public programs, providing new public subsidies, and shoring up the safety net—the configuration of public hospitals and clinics that provide health care to those without insurance.

Reforms in the market for small-group insurance and small-group purchasing alliances are intended to make insurance more accessible and affordable for small businesses, which are less likely to offer insurance to their workers than are larger firms. Expanding the availability of group insurance targets the 40 percent of the uninsured who work in small businesses and their dependents. Expanding public programs and new public subsidies are intended to make insurance more readily available and affordable to low-income uninsured persons, regardless of their work status.

A series of studies conducted by RAND economists Susan Marquis and Stephen Long have examined how successful these state experiments have been. Overall, the results show that

### This Highlight summarizes RAND research reported in the following publications:

Long SH, Marquis MS. Have Small-Group Health Insurance Purchasing Alliances Increased Coverage? *Health Affairs*, Vol. 20, No. 1, 2001, pp. 154-163.

Long SH, Marquis MS. Participation in a Public Insurance Program: Subsidies, Crowd-Out, and Adverse Selection, *Inquiry*, Vol. 39, No. 3, Fall 2002, pp. 243-257.

Marquis MS, Long SH. Effects of “Second Generation” Small Group Health Insurance Market Reforms, 1993 to 1997, *Inquiry*, Vol. 38, Winter 2001/2002, pp. 365-380.

Marquis MS, Long SH. Federalism and Health System Reform: Prospects for State Action, *Journal of the American Medical Association*, Vol. 278, No. 6, 1997, pp. 514-517. Also available as RAND RP-647.

Marquis MS, Long SH. Public Insurance Expansions and Crowd Out of Private Coverage, *Medical Care*, Vol. 41, No. 3, March 2003, pp. 344-356.

Marquis MS, Long SH. The Role of Public Insurance and the Public Delivery System in Improving Birth Outcomes for Low-Income Pregnant Women, *Medical Care*, Vol. 40, No. 11, November 2002, pp. 1048-1059.

Editor’s Note: This summary of findings from a series of studies of state-level experiments with small-group insurance reforms offers invaluable insight to state policymakers interested in pursuing remedies for the stubborn problems of the uninsured while remaining mindful of the rising cost of Medicaid. These reforms were intended to increase the number of insured and decrease costs for small firms and their employees. Unfortunately, the affordability of health insurance remains a significant obstacle for many of Kentucky’s small businesses, leaving their employees and their families without access to health insurance and, research shows, diminished access to health care.

states have not yet solved the problem of the uninsured. But the experiments have provided important lessons for policymakers that may help to shape the next wave of programs.

### Making Insurance More Accessible to Small Businesses

**The “Second Generation” of Small-Group Health Insurance Market Reforms.** In the mid-1990s, several state legislatures enacted a second generation of small-group health insurance reforms to eliminate insurer underwriting practices that prevent groups or individuals in a group from purchasing insurance. For example, the reforms required insurers to make all of their policies available to any employer who wished to purchase a policy. The intent was to make insurance more accessible for high-risk groups, that is, groups with members at risk for having high expenditures on health care.

The reforms also governed how insurers could set premiums by restricting the extent to which premiums for a given set of benefits could vary across groups with different health characteristics. These reforms were intended to enlarge the risk pool on which premiums for small businesses are based, thereby making insurance more affordable for high-risk groups.

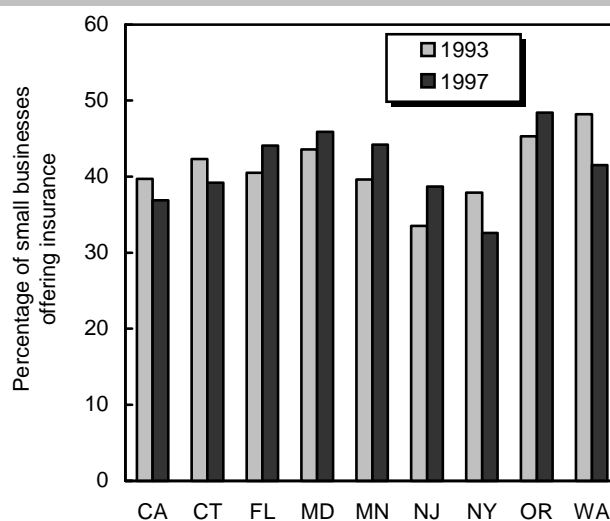
Marquis and Long compared the behavior of small business in nine states that adopted these reforms between 1993 and 1997 with the behavior of small business in 11 states and the District of Columbia, where neither type of reform existed before 1997. They drew their data from two large national surveys of employers—the 1997 Robert Wood Johnson Foundation (RWJF) Employer Health Insurance Survey and

the National Employer Health Insurance Survey. The analysis focused on three basic outcomes: (1) the percentage of small businesses offering insurance and the percentage of employees enrolling, (2) small business decisions to add or drop insurance, and (3) the size and variability of premiums.

Overall, they found that the reforms had no effect on any of these outcomes. Figure 1 illustrates some of their findings. There were few significant differences in the percentage of employers offering insurance before and after the reforms and no consistent direction of effect across the states. Comparing the percentage of employees in firms offering insurance and the percentage of employees enrolled before and after the reforms reveals similar patterns.

The reforms also had no substantial effect on either the level or the variability of premiums in the small-group market. Some reform states had higher premiums than the nonreform states; others had lower premiums. However, although the reforms had little discernible effect on average, they may have improved access for the highest-risk employee groups.

**Figure 1. Regulatory Reform Did Not Increase the Percentage of Small Businesses That Offered Insurance**



**Small-Group Health Insurance Purchasing Alliances.** Health insurance purchasing alliances are intended to expand coverage by making insurance more affordable to groups of small businesses. In principle, alliances have lower administrative costs and give small groups collective purchasing power to negotiate lower rates from insurance carriers and plans. The alliance is also intended to stimulate competition in the rest of the small-group market, thus expanding coverage outside of the alliance as well.

Drawing on data from the 1997 RWJF Employer Health Insurance Survey, Marquis and Long examined the three states—California, Connecticut, and Florida—that had the largest statewide small-group alliances in the nation to see if the alliances increased coverage. The alliances encompassed a range of models, including both public and private sponsorship.

## FORESIGHT KENTUCKY

LONG-TERM POLICY RESEARCH CENTER

111 St. James Court, Frankfort, Kentucky 40601-8486

Phone: 502-564-2851 or 800-853-2851

Fax: 502-564-1412 or 800-383-1412

E-mail: [info@kltprc.net](mailto:info@kltprc.net)

[www.kltprc.net](http://www.kltprc.net)

### Board of Directors

Mary Lassiter, Chair

Paul B. Cook, Vice Chair

### EXECUTIVE BRANCH

Ed Ford; Diane Hancock; Donna B. Moloney

### LEGISLATIVE BRANCH

Sen. Walter Blevins; Sen. Lindy Casebier;

Sen. Alice Forgy Kerr; Rep. Steve Nunn

### AT-LARGE MEMBERS

Ron Carson; Betty Griffin; Daniel Hall; Jennifer M. Headdy; Sheila Crist Kruzner; Penny Miller; Robert Sexton; Brian Van Horn

### EXECUTIVE DIRECTOR

Michael T. Childress

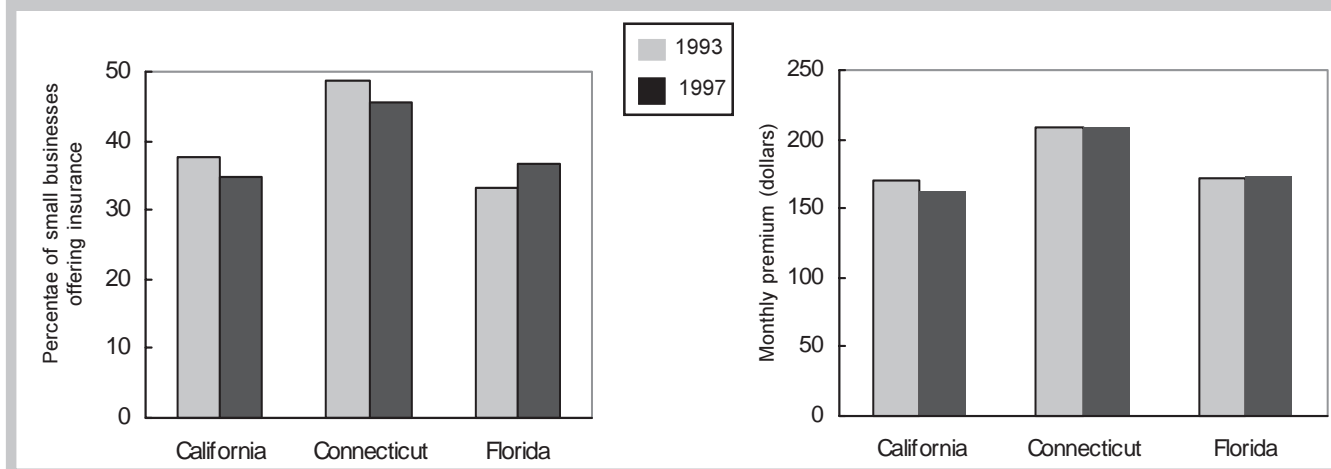
Editor: Michal Smith-Mello

SCAN COORDINATOR: Billie M. Sebastian

LAYOUT: Suzanne King

Printed with state funds. Available in alternative formats upon request.

**FIGURE 2. Small-Group Purchasing Alliances Did Not Have Their Intended Effects**



The researchers found that the alliances did not have their intended effects. They did not increase the percentage of small businesses that offered health insurance, nor did they reduce small-group market health insurance premiums. Figure 2 highlights some of their findings.

However, the alliances did permit participating employers to offer a much greater choice in the number and types of plans, and employees took advantage of these expanded options.

### Providing Subsidies and Expanding Public Programs

To increase coverage for the uninsured, many policymakers favor voluntary programs with financial assistance—such as tax credits, vouchers, or subsidized insurance—to help families obtain coverage. At the core of designing such programs are several critical questions, including the following:

- How large must the subsidy be to motivate the uninsured to enroll?
- Does expanding public programs lead some people to drop private insurance—“crowding out” private insurance?

**How Large Must the Subsidy Be?** Marquis and Long examined the experience of Washington State’s Basic Health (BH) program with these issues. The first state-subsidized insurance program in the country, it contracts with managed care plans to deliver services to participants. Individuals in families below 200 percent of the poverty level paid a sliding-scale premium ranging from \$10 to \$100 per month in 1997, as well as a small co-payment for most services.

The researchers modeled how changing the premium would affect enrollment. They found that lowering the premium for the BH program decreased the number of people who were uninsured. For example, reducing the premium from \$50 to \$25 per month decreased the proportion of uninsured adults by about 2 percentage points and dropped the uninsured rate among children by about 3 percentage points. Reducing the premium by an additional amount further decreased the number of uninsured (see Table 1).

Nonetheless, even with a modest premium of \$10 per month, about one-third of adults and nearly 10 percent of children would

remain uninsured. This result, as well as other research (including work conducted by Marquis and Long), suggests that substantially decreasing the ranks of the uninsured will require very large subsidies.

**Do Public Programs Crowd Out Private Insurance?** An important concern in evaluating the success of public programs is whether public coverage is substituting for—crowding out—private insurance. Crowd-out could happen in two ways: (1) some people drop their private insurance to take advantage of the lower premium in the public program, or (2) some employers drop health insurance as an employee benefit because the public program offers an alternative. Crowd-out increases the cost of a public program because the state pays the insurance costs for some people who would otherwise have purchased private insurance.

To investigate crowd-out, Marquis and Long looked at what happened in seven states that expanded public coverage for a broad spectrum of their low-income population between 1991 and 1997. They used data from the Current Population Survey to study families’ decisions about insurance coverage, and information from two large national employer surveys to examine how public programs influenced employers’ decisions to offer insurance. They analyzed family and employer responses before and after the expansion of public insurance in the seven states and compared these changes with responses from those in a group of states without such expansions.

They found that expansions did increase the percentage of population enrolled in public programs in the seven target states. Participation in public programs grew by about 4 percentage points for adults and about 5 percentage points for children. In contrast, the percentage of low-income persons covered by private insurance fell in the seven states as a whole by about 3 percentage points more than expected based on insurance changes in the contrast states. These findings suggest that about 50 percent of those who newly participated in the public program substituted public insurance for private insurance.

Changes in employer-based coverage accord with this finding. In the seven expansion states, this coverage fell by about 3 percentage points more than would be expected from changes

**Table 1. Lowering the Premium Reduced the Number of Uninsured**

Percentage Uninsured	Monthly Premium for BH coverage		
	\$50	\$25	\$10
Adults	35%	30%	30%
Children	13%	10%	9%

in the other states. Both the share of employees offered coverage and the share of employees who elected coverage if their firm offered it declined.

The expansion of public insurance had a bigger effect on small firms with a large share of low-wage workers, who would be eligible for the public programs. Firms with this kind of employee mix were more likely to stop offering coverage.

The experience of these seven states suggests that expanding access to public programs may indeed crowd out private insurance. Some public programs include design features, such as a waiting period, to try to explicitly prevent direct switching from private to public programs. But these design features raise issues of equity in the treatment of similar individuals.

### Constraints on States' Ability to Expand Coverage

The studies summarized above demonstrate that state efforts have not eliminated the problem of the uninsured. Why have the states been unsuccessful?

One reason is that the tax capacity of some states makes them unable to cover their uninsured without federal help.

Marquis and Long examined the additional taxes that state residents would have to pay for a state program to subsidize coverage for low-income uninsured residents. There is substantial variation among states in the uninsured rate, which means that some states will have to spend more per capita than other states to attain equivalent outcomes in terms of covering their uninsured. In the early 1990s, the uninsured rate averaged 10 percent in the 12 states with the lowest uninsured rates, but was twice this in the 12 states with the highest uninsured rates.

The Marquis-Long analysis showed that, unfortunately, the states with the greatest need to extend coverage have the least capacity to do so. Nationwide, only half the states will be able to cover all of their uninsured with a budget limited to their tax capacity to finance health care reform. Thus many states will need financial assistance to introduce or expand programs to subsidize the purchase of insurance for their uninsured population.

### Supporting the Safety Net

The analysis of Washington State's public insurance program suggests that even with fairly substantial subsidies some uninsured will remain. This highlights the need for a strong safety net to ensure access to care for these uninsured. In addition, evidence suggests that supporting the safety-net delivery system may result in better health outcomes in some cases. Efforts to improve maternal health outcomes provide an example.

**Effectiveness of the Public Health System: Florida's Experience.** Improving birth outcomes for low-income pregnant women has been an important health policy objective for two decades. Policymakers have pursued this goal in two ways: by expanding public insurance programs such as Medicaid, and by developing service delivery systems that typically include care coordination and combine nonmedical support services with clinical care. Marquis and Long examined Florida's experience with both of these approaches to help assess their effects.

Florida has nearly 200,000 births per year; both Medicaid and the county health departments play a significant role in financing maternal health care. Marquis and Long linked data from birth certificates, hospital records, Medicaid files, and county health department records to compare prenatal health care use and birth outcomes for four groups of low-income pregnant women, representing different financing approaches and different delivery systems:

- women on Medicaid who received prenatal care in the public health system
- women on Medicaid who received prenatal care from the private health care delivery system
- uninsured women who received prenatal care from the public health system
- uninsured women who received prenatal care from the private health care delivery systems.

Providing public insurance increased the number of prenatal care visits per user. Women enrolled in Medicaid had significantly more visits than uninsured women, regardless of their choice of delivery system.

But birth outcomes are affected more by where low-income women receive care than by their insurance status. Women treated in the public health system had significantly better birth outcomes than women treated in the private system, whether they had Medicaid or were uninsured.

This analysis confirms that expanding public insurance does increase use of services. However, expansion by itself does not appear to lead to better outcomes. Instead, receiving care in the public health system, which provides care coordination and nonclinical support services, seems to be important for improving outcomes for this population. These results suggest that expanding the safety net may be more effective in improving health for some disadvantaged populations than providing them with insurance and leaving them to navigate the health care system on their own.

### Conclusions

States have tried a variety of approaches to expand health insurance coverage. Although none of these incremental approaches has eliminated the problem, policymakers have learned some valuable lessons.

A successful approach will likely involve multiple strategies. Regulations and purchasing alliances can help eliminate practices such as underwriting and administrative advantages that make insurance inaccessible to some groups. But large subsidies will be needed to enhance demand for coverage.



States are unlikely to be able to solve the problem of the uninsured on their own, especially in view of current constraints on state budgets. Large reductions in the uninsured will require new federal expenditures or innovative public/private approaches to financing. Many states are now pursuing this latter approach by using public money to pay the employee's share of employer group coverage for uninsured working families.

In a system in which purchasing health insurance is voluntary, we cannot expect to eliminate the uninsured. Maintaining a strong safety net will be necessary to ensure that those who remain uninsured have access to health care. State budget constraints put the safety net at risk. We need to ensure that the safety net's integrity does not erode. *✍*

### Employment-Based Health Insurance Selected RAND Research

Buchanan JL, Marquis MS. Who Gains and Who Loses with Community Rating for Small Business? *Inquiry*, Vol. 36, No. 1, 1999, pp. 30-43. Also available as RAND RP-793.

Long SH, Marquis MS. Have Small-Group Health Insurance Purchasing Alliances Increased Coverage? *Health Affairs*, Vol. 20, No. 1, 2001, pp. 154-163.

———. Participation in a Public Insurance Program: Subsidies, Crowd-Out, and Adverse Selection, *Inquiry*, Vol. 39, No. 3, Fall 2002, pp. 243-257.

———. Pooled Purchasing: Who Are the Players? *Health Affairs*, Vol. 18, No. 4, 1999, pp. 105-111. Also available as RAND RP-814.

Manning WG, Marquis MS. Health Insurance: The Tradeoff Between Risk Pooling and Moral Hazard, *Journal of Health Economics*, Vol. 15, 1996, pp. 609-639. Also available as RAND RP-616.

Marquis MS, Holmer MR. Alternative Models of Choice Under Uncertainty and the Demand for Health Insurance, *The Review of Economics and Statistics*, Vol. 78, No. 3, 1996, pp. 421-427. Also available as RAND RP-568.

Marquis MS, Long SH. Effects of "Second Generation" Small Group Health Insurance Market Reforms, 1993 to 1997, *Inquiry*, Vol. 38, Winter 2001/2002, pp. 365-380.

———. Federalism and Health System Reform: Prospects for State Action, *Journal of the American Medical Association*, Vol. 278, No. 6, 1997, pp. 514-517. Also available as RAND RP-647.

———. Prevalence of Selected Employer Health Insurance Purchasing Strategies in 1997, *Health Affairs*, Vol. 20, No. 4, July-August 2001, pp. 220-230.

———. To Offer or Not to Offer: The Role of Price in Employers' Health Insurance Decisions, *Health Services Research*, Vol. 36, No. 5, October 2001, pp. 935-958.

———. The Role of Public Insurance and the Public Delivery System in Improving Birth Outcomes for Low-Income Pregnant Women, *Medical Care*, Vol. 40, No. 11, November 2002, pp. 1048-1059.

———. Worker Demand for Health Insurance in the Non-Group Market, *Journal of Health Economics*, Vol. 14, 1995, pp. 47-63. Also available as RAND RP-433.

© RAND 2003, reprinted with permission.

Abstracts of all RAND Health publications and full text of many research documents can be found on the RAND Health web site at [www.rand.org/health](http://www.rand.org/health). RAND is a nonprofit institution that helps improve policy and decisionmaking through research and analysis. RAND Health furthers this mission by working to improve health care systems and advance understanding of how the organization and financing of care affect costs, quality, and access. RAND® is a registered trademark. Most of the research described here was supported by The Robert Wood Johnson Foundation as part of its State Initiatives in Health Care Reform program.

**RAND**

1700 Main Street, PO Box 2138, Santa Monica, California 90407-2138 Phone 310.393.0411 Fax 310.393.4818  
1200 South Hayes Street, Arlington, Virginia 22202-5050 Phone 703.413.1100 Fax 703.413.8111  
201 North Craig Street, Suite 202, Pittsburgh, Pennsylvania 15213-1516 Phone 412.683.2300 Fax 412.683.2800

## The 2003 Vic Hellard Jr. Award

*for service in the interest of Kentucky's future*



Nominations for the 2003 Vic Hellard Jr. Award are now being accepted by the Board of the Kentucky Long-Term Policy Research Center. Given annually in memory and recognition of Mr. Hellard's leadership and service to the Commonwealth, this honor recognizes an individual who, by his or her example and leadership, has advanced citizen goals for the future. Nominating letters should explain how the candidate:

- 🏆 Demonstrates vision, considering the long-term implications for the public good;
- 🏆 Demonstrates innovation, finding new approaches while appreciating history;
- 🏆 Champions the equality and dignity of all;
- 🏆 Enhances the processes of a democratic society, promoting public dialogue, educating citizens and decisionmakers, and fostering civic engagement; and
- 🏆 Approaches work with commitment, caring, generosity, and humor.

**Letters of nomination must be submitted by September 15, 2003, to:**

Hellard Award Selection Committee  
Kentucky Long-Term Policy Research Center  
111 St. James Court  
Frankfort, KY 40601

Or submit your nomination online at:

[www.kltprc.net/hellardaward.htm](http://www.kltprc.net/hellardaward.htm)

The 2003 award will be presented at the Center's 10th annual conference, November 18, 2003, at the Kentucky International Convention Center, Louisville, Kentucky. Conference details are on pages 6 & 7.

# At the Crossroads



## Prospects for Kentucky's Educational Future: Preschool to Postsecondary

November 18, 2003 ♦ International Convention Center ♦ Louisville, Kentucky  
8:00 a.m. to 5:00 p.m.

### The 10th Annual Conference of the

**KENTUCKY**  
LONG-TERM POLICY RESEARCH CENTER

**Jointly Sponsored by**

**and**

**in Partnership with**



Association of Independent Kentucky Colleges and Universities  
Council on Postsecondary Education  
Education, Arts and Humanities Cabinet  
Kentucky Chamber of Commerce  
Kentucky Department of Education  
Division of Early Childhood Development  
The Prichard Committee for Academic Excellence



## Register Now:

NAME \_\_\_\_\_ ORGANIZATION \_\_\_\_\_  
ADDRESS \_\_\_\_\_ CITY \_\_\_\_\_ STATE \_\_\_\_\_ ZIP \_\_\_\_\_  
PHONE \_\_\_\_\_ FAX \_\_\_\_\_ E-MAIL \_\_\_\_\_ WEBSITE \_\_\_\_\_

\_\_\_\_\_ \$40 Registration before November 10, 2003

\_\_\_\_\_ \$10 Student Rate \_\_\_\_\_ Group Rate (5th attendee is free with 4 paid registrations)

**Registration faxed or postmarked after Nov. 10, 2003, will be \$50.**

### STATE EMPLOYEES

MARS Agency # \_\_\_\_\_

Contact Person for MARS \_\_\_\_\_ Phone \_\_\_\_\_ E-Mail \_\_\_\_\_

SPECIAL NEEDS? (Dietary or Other) \_\_\_\_\_

**CANCELLATION, REFUND, & SUBSTITUTION POLICIES** *Cancellations received after November 10, 2003, will not be refundable. Substitutions are welcome. "No shows" will be charged the full fee.*

**TO REGISTER** *Copy this form as many times as needed and mail or fax it, with a check or money order made payable to the Kentucky State Treasurer, to the:*

Education Conference  
PO Box 4817  
Frankfort, KY 40604-4817

Fax: 502-564-1412 or 800-383-1412

or

Register online at: [www.kltprc.net/conference2003.htm](http://www.kltprc.net/conference2003.htm)



## FEATURED SPEAKERS

**U.S. Senator Mitch McConnell** Kentucky's senior congressional officer, who needs no introduction in his home state, has been invited to give the keynote address at lunch.



**Virginia Edwards** A former education writer for the *Courier-Journal*, Ms. Edwards is President of Editorial Projects in Education and Editor of the premier periodicals on elementary and secondary education, *Education Week* and *Teacher Magazine*.



**David Longanecker** As Executive Director of the Western Interstate Commission for Higher Education, Dr. Longanecker is widely regarded as one of the nation's leading thinkers on innovations in higher education and on access and equity.



**Thomas R. Wolanin** A long-time Senior Associate at the Institute for Higher Education Policy Studies, Dr. Wolanin is a widely published policy expert in postsecondary education funding and governance, student access and equity, and international education.



## GENERAL SESSIONS



**Perspectives on Kentucky's Educational Achievements and Coming Challenges** Gov. Paul E. Patton will outline the accomplishments of the past eight years while his successor (invited) presents his vision for the future of education in the Commonwealth.

**A National Perspective on the Status of Education** Prichard Committee Executive Director Bob Sexton engages Virginia Edwards, editor of *Education Week* and *Teacher Magazine*, and David Longanecker, Executive Director, Western Interstate Commission for Higher Education, in a discussion of the challenges before policymakers and educators.

**The KET Panel Discussion** Bill Goodman, host of KET's award-winning *Kentucky Tonight*, will guide some of the state's most prominent leaders in the field of education in a timely discussion of how the Commonwealth will meet the challenge of funding educational excellence in an era of constrained resources.

## CONCURRENT SESSIONS

**KIDS NOW = Current Investment for Future Success** Ongoing efforts and future prospects for the KIDS NOW initiative—the "P" in P-16 education.

**Melding the Old with the New: Assessment and Accountability** How will we meld the federal *No Child Left Behind Act* and the state's current system of assessment and accountability?

**The Cost of Quality: How Much?** Reconciling findings from three recent studies with three different conclusions about how much funding is needed to provide Kentucky children with an equitable and adequate education.

**Roadblocks to Higher Education: Funding, Preparation, and Access** Perspectives on the factors that limit access to higher education.

**Mapping the Future of Higher Education: Reauthorization of the Higher Education Act** An exploration of congressional efforts to expand access to higher education in the face of budget constraints and a sluggish economy.

**A New Route for KEES? Findings of the Legislative Research Commission Study** A discussion of findings from a Legislative Research Commission study of the Kentucky Educational Excellence Scholarship program as commissioned by the 2003 General Assembly.

**Improving Mileage: Stretching College Dollars to Cover Increasing Costs and Decreasing Budgets** A look at the efforts of public and private institutions to minimize the impact of steadily rising tuition costs on families, students, and college-going rates.

**Rerouting the Road to Nowhere: Addressing Cultural Barriers to Education** An exploration of the effectiveness of current outreach programs in light of a college-going rate that's stuck at the 50% mark.

**Collective Progress Is Not Enough: Dealing with the Achievement Gap** How big and how broad are its consequences and how will we bridge them in light of recent state and federal legislation?

**Adult Education and Literacy: Leave No Adult Behind!** Maintaining momentum toward a more literate Kentucky in an era of constrained resources.

## Eastern Kentucky Achieves Progress: Parity Remains Elusive

**By Dr. Amy L. Watts**

This is the first in a series of four reports documenting economic changes in four regions of the Commonwealth during the decade of the 1990s and examining the ways in which these changes relate to the framework presented in Table 1. Here, we use Area Development District (ADD) boundaries to divide the state into four regions: eastern, western, south central, and the urban triangle of Kentucky. This report analyzes some of the social and economic changes that occurred in eastern Kentucky during the 1990s and their potential implications for the future.

The convergence of structural economic changes, such as globalization and technological advances, compels Kentucky communities to adopt a more comprehensive approach to economic development. This involves moving away from the traditional concept of economic development as merely jobs creation to one of development as a process by which a community or region raises the standard of living of its residents.<sup>1</sup>

**TABLE 1**  
**The Building Blocks of Community Development**

The Building Blocks of Community Development		
	<i>From emphasis on growth as goal</i>	<i>To emphasis on development as goal</i>
<b>Business Development</b>	More jobs	More high-quality jobs
<b>Workforce Development</b>	Low-skill, low-wage labor	High-skill, high-value labor
<b>Physical Infrastructure</b>	Traditional infrastructure (roads, water, sewer, etc.)	Traditional plus emerging infrastructure (telecommunications)
<b>Social Infrastructure</b>	Human services, such as child and elder care, health care, and housing, as peripheral to development	Human services as integral to development
<b>Cultural and Environmental Stewardship</b>	Heritage preservation, i.e., protecting the physical and built environment, as grounded solely in the past	Utilizing cultural and environmental assets as tools for community building and development
<b>Civic Infrastructure</b>	Maintaining traditional models of civic participation and governance	Developing broad, diverse community leadership and a government that works for all people.

Source: MDC, Inc.

This more holistic viewpoint recognizes the interconnections between the development of human capital, business enterprises, and the social fabric of community. North Carolina's MDC, Inc., which specializes in research into the unique economic structure of the southern United States, concludes that economic development efforts demand a comprehensive framework for building communities from within and reckoning with the larger changes in the world that influence all economies. Table 1 shows

*Dr. Amy L. Watts is a policy analyst at the Kentucky Long-Term Policy Research Center. The author would like to thank Michal Smith-Mello for her invaluable editorial contributions.*

the six building blocks MDC suggests and the shift from dated concepts of economic development to this new structure.

The challenges Kentucky faces in economic development are readily apparent in the social and economic changes that have taken place over the past decade. In some areas, communities are becoming more vulnerable to the structural changes afoot in the new economy, not less. In addition, government at all levels is once again feeling acute pressure to do more with less as budgetary constraints conflict with the ever-increasing demands of citizens for more services.

## A Weak Economic Base

**E**astern Kentucky, known to most natives simply as “East Kentucky,” lies in the heart of the Appalachian Mountains, a unique geographic region of the Commonwealth known for both its rich cultural history and its persistent economic woes. For the purposes of this report, eastern Kentucky includes 36 counties (see Figure 1), covering approximately 12,053 square miles of land.<sup>2</sup> In 2000, approximately 75 percent of the residents in this region lived in rural communities. Many of these counties, 33 of the 36, fall within the purview of the Appalachian Regional Commission (ARC), a federal agency created by Congress in 1965 to support and promote social and economic development in this multistate region. The persistence of poverty in this region is best illustrated by the fact that the ARC’s designation of 30 of the 33 Kentucky Appalachian counties as “distressed” in 1960 remained unchanged in 2000.<sup>3</sup>

**FIGURE 1**  
**East Kentucky Region**



When we examine eastern Kentucky in light of the first building block of MDC’s development model, “*building the economic base and creating larger numbers of higher-quality jobs—jobs that provide a living wage, good benefits and the*

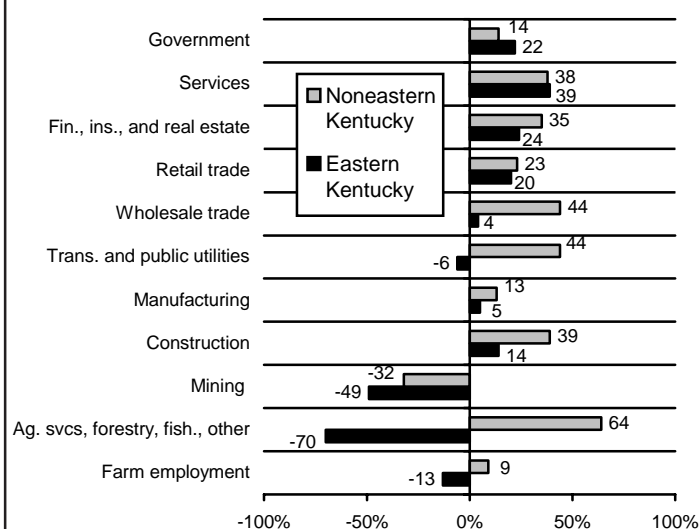


*potential for advancement,”*<sup>4</sup> we find progress in the quantity but not necessarily the quality of jobs in the region. Despite an increasing number of jobs and lower unemployment rates in the region, prosperity remained elusive for many during the 1990s. The total number of full- and part-time jobs increased over the decade for eastern Kentucky by 38,127 or 13 percent. The average unemployment rate for the counties in the region dropped from 9.2 percent in 1990 to 6.9 percent in 2000. However, this unemployment rate was higher than that of the state (4.1 percent) and the U.S. average (4.0 percent).

This growth in jobs is at least in part a product of a development strategy—“quantitative development” or industrial recruitment—that emerged in the southern United States during the 1950s. The vestiges of the strategy can be found throughout communities in Kentucky and, indeed, the entire South.<sup>5</sup> The change in the industrial mix of jobs that we see in eastern Kentucky today illustrates what was and is the weakness of a simple jobs creation strategy: without concerted attention to human capital and community development, the region attracts principally low-wage industries.

The economic mainstays on which eastern Kentucky’s economy and, some have argued, its culture were founded—mining and agriculture—declined sharply as employment in these sectors plummeted over the decade. Long dependent on coal mining as a source of relatively high-wage jobs for low-skilled labor, the region saw employment in this industry fall 49 percent, compared with 32 percent elsewhere (see Figure 2). Farm employment declined by 13 percent and jobs in agricultural services, forestry, fishing, and other related industries fell 70 percent compared to a 64 percent *increase* for the rest of the state.

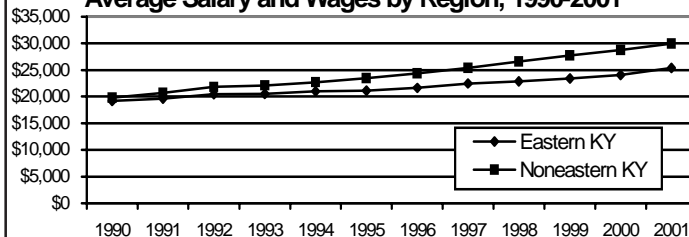
**FIGURE 2**  
Percentage Change in Employment,  
Eastern and Noneastern Kentucky,  
by Industrial Sector, 1990 to 2000



Source: Bureau of Economic Analysis

Job growth occurred mostly in industries known for their low wages and lack of opportunity for advancement or which are highly vulnerable to decisions made outside the region itself. Manufacturing, the historic harbinger of “jobs, jobs, jobs” in the South, saw a slight increase, 5 percent for eastern Kentucky. Unfortunately, earnings from this industry actually declined for the region from 16 percent of total earnings in 1990 to 13 percent in 2000 despite the increase in employment, heralding the end of an era during which manufacturing was a reliable source of strong wages for low-skilled workers. Approximately equal increases occurred in eastern Kentucky and the rest of the state in the traditionally low-wage sectors of retail trade and services. The growth in employment in services was driven mainly by an increase in health services jobs. The only considerable growth over the rest of the state came from employment in government and government enterprises. Excluding manufacturing, changes in earnings mirrored the changes in employment.

**FIGURE 3**  
Average Salary and Wages by Region, 1990-2001



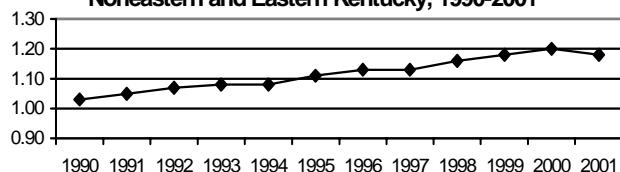
Source: Bureau of Economic Analysis

Changes in personal income and its component, wages and salary, reveal further evidence of a relative lack of high-quality jobs. While the average real county per capita income (CPCI) rose for this region over the decade, it remained approximately 78 percent of the average CPCI for the rest of the state. The average real CPCI for the region increased 17 percent from \$14,482 in 1990 to \$16,991 in 2000.<sup>6</sup> This remained well below the \$21,726 average of the counties in the remaining regions for 2000.

The relatively slower pace of growth in average salary and wages in eastern Kentucky, a component of CPCI, further illustrates the lagging earnings potential of the jobs in this region. Figure 3 shows an increase in average salary and wages from 1990 to 2001 for both eastern Kentucky and the rest of the state. With a 1.03 ratio between average salary and wages of the two regions, this indicator was approximately equal in 1990. However, by 2000 the ratio between average salary and wages of the counties outside eastern Kentucky and those within eastern Kentucky had risen to approximately 1.18 (see Figure 4).

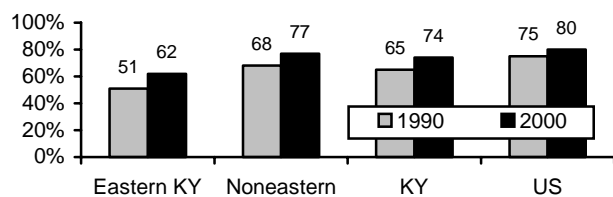
### Progress in Workforce Development

Continuing to follow MDC, Inc.’s recommended infrastructure for development, we examine the region’s progress in light of its success in “*building a high-skill, high-value workforce, the human resource base for the knowledge economy.*”<sup>7</sup> Data show that eastern Kentucky,

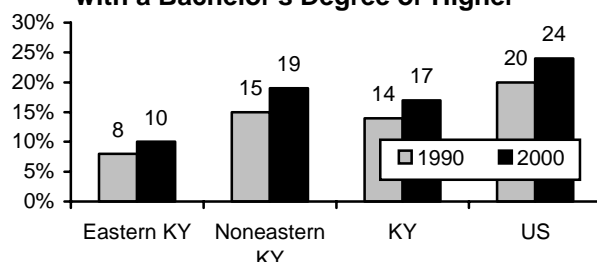
**FIGURE 4****Ratio of Average Salary and Wages Between  
Noneastern and Eastern Kentucky, 1990-2001**

Source: Bureau of Economic Analysis

like the rest of the state, has taken steps to address the impediment of its reliance on low-skill labor to fill low-wage jobs through broad investment in educational reform. However, data also show that the journey is just beginning. While the percent of high school graduates in this region increased from 1990 to 2000, the region continued to lag the rest of the state, Kentucky as a whole, and the nation in this important indicator (see Figure 5). The region progressed similarly over the decade in the percent of adults who attained a four-year postsecondary degree or higher (see Figure 6).

**FIGURE 5****Percent of Adults Aged 25 and Older  
with a High School Diploma or Higher**

Source: U.S. Census Bureau

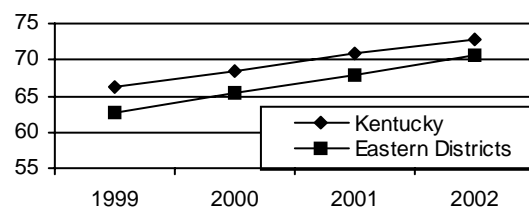
**FIGURE 6****Percent of Adults Aged 25 and Older  
with a Bachelor's Degree or Higher**

Source: U.S. Census Bureau

A comparison of educational attainment levels between the two regions by age groups shows that a greater portion of the younger age groups are attaining high school diplomas. However, eastern Kentucky's levels still fall behind those in the rest of the state. Of eastern Kentuckians 18 to 24 years old, approximately 69 percent had graduated high school in 2000 compared to 76 percent in the rest of the state. The next age group performed much better, however, with 76 percent of eastern Kentuckians 25 to 34 years old with at least a high school diploma compared to 86 percent in the remaining portions of Kentucky. Attainment of a four-year college degree does not vary

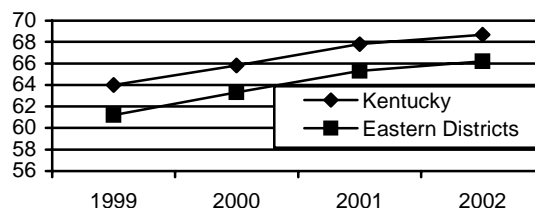
much by age however. Those age 25 to 34, 35 to 44, and 45 to 64 had an 11 percent bachelor's degree attainment rate in eastern Kentucky, compared to approximately 23, 20, and 20 percent, respectively, for the rest of the state. Approximately 7 and 11 percent of those age 65 and older had attained a bachelor's degree in eastern Kentucky and the rest of the state, respectively.

Analysis of data on indicators of educational achievement produced similar results. Figures 7, 8, and 9 show the average CATS scores for elementary, middle, and high school districts, respectively, in Kentucky and the region.<sup>8</sup> In each case the scores improved but remained lower than the improvements made in Kentucky as a whole. In addition, the largest gaps were found at the high school level, reflecting the concerns of some educators that Kentucky high schools have been slow to adapt to educational reforms.<sup>9</sup>

**FIGURE 7****Elementary Schools  
District-Level CATS Scores\***

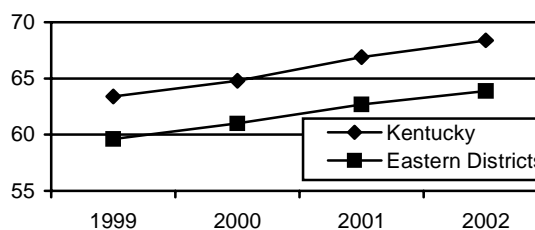
Source: Kentucky Department of Education

\*unweighted means of district-level scores

**FIGURE 8****Middle Schools  
District-Level CATS Scores\***

Source: Kentucky Department of Education

\*unweighted means of district-level scores

**FIGURE 9****High Schools  
District-Level CATS Scores\***

Source: Kentucky Department of Education

\*unweighted means of district-level scores

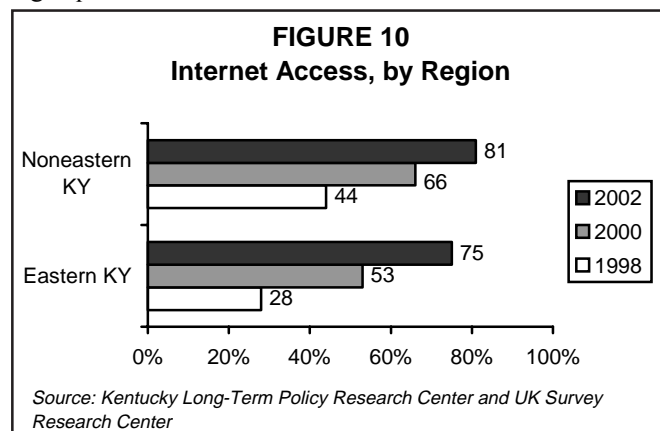
The region also suffered disproportionate losses of its future workforce and thus some of the potential returns on the human capital investments it is making in its children over the

decade. While eastern Kentucky saw moderate population growth over the decade, it was the only region to experience a decline in its child population. With a population increase of 24,326 between 1990 to 2000, approximately 786,773 people lived in eastern Kentucky in 2000. Compared to the rest of the state, which experienced an 11 percent increase in population, however, eastern Kentucky's population grew by just 3 percent. The age 18 and under population declined by 8 percent compared to an 8 percent *increase* in the rest of the state. The adult population, which includes those age 18 to 64, grew 8 percent in eastern Kentucky compared to 13 percent for the remaining portions of the state. The age 65 and older population grew by approximately 7 percent in both Kentucky regions.

### Lingering Gaps in Physical Infrastructure

When we turn to MDC, Inc.'s vision of physical infrastructure "... utilizing transportation and telecommunications to connect the community with distant markets, people, and educational options and providing essential infrastructure to ensure public health and safety,"<sup>10</sup> we find evidence of important progress in eastern Kentucky. Bridging the so-called digital divide has become as key to the economic development of communities as ensuring safe roads and adequate clean water and wastewater management.

Data for eastern Kentucky indicate that the gap in connectedness is narrowing. Figure 10 shows that by 2002 approximately 75 percent of eastern Kentucky residents had access to the Internet, substantially reducing the gap between this and other regions in the state. A 2002 report on Kentucky network access revealed that at 45 percent, eastern Kentucky surpasses the remaining regions in the percent of residents with cable modem access.<sup>11</sup> However, at 31 percent of the region's population with DSL access it trails the remaining regions in this capability. The study goes on further to note that "significant remote and rural areas [still] do not have any broadband services."<sup>12</sup> High speed access is fast becoming a necessity of businesses in many rural areas that lack this resource. Without it, many are unable to connect to headquarters, receive online orders, and execute many other tasks that require high-capacity, high-speed Internet access.



In the building and maintenance of traditional physical infrastructure, such as clean water, sewer, and roads, some challenges remain. The strategic plans for clean water and waste-

water management in this area reveal that most of the construction of proposed new *public* water and sewer lines are to take place in this region of the state. Of the new public water lines proposed for the whole state from 2000 to 2020 by the Governor's Water Resource Development Commission in 1999, 57 percent were in this 36-county area.<sup>13</sup> Of the projected costs for public sewer lines from 2000 to 2020, eastern Kentucky needs constitute 42 percent of the state total.<sup>14</sup> Of the \$6.2 billion cost to complete the planned improvements in the long-range highway plan element of the statewide transportation plan, approximately 48 percent will be spent in the 36 eastern Kentucky counties analyzed here for approximately 40 percent of the planned improvement mileage throughout the state.<sup>15</sup> The projected work and costs laid out in these plans are considerable and indicate the poor condition of infrastructure in this part of the state and the challenges this region faces in financing these proposed projects.

### A Fragile Social Infrastructure

MDC, Inc. also proposes that "...[a] comprehensive vision for a strong social infrastructure entails providing social supports to enable all people to live and work with dignity."<sup>16</sup> The goals MDC outlines for communities in this area include: provide affordable, quality health care for all people; provide pathways to self-sufficiency for economically vulnerable persons and families; and view safe, affordable housing as a human right and home ownership as an asset-building tool for families and communities.<sup>17</sup>

Changes in the distribution of income reveal some of the challenges this region faces in meeting the demands of a strong social infrastructure. A disproportionately heavy reliance on government transfer payments in this region suggests a level of economic fragility that could clearly be expected to undermine its social infrastructure. They are indicative of high rates of poverty, dependency, poor health, and lower standards of living.

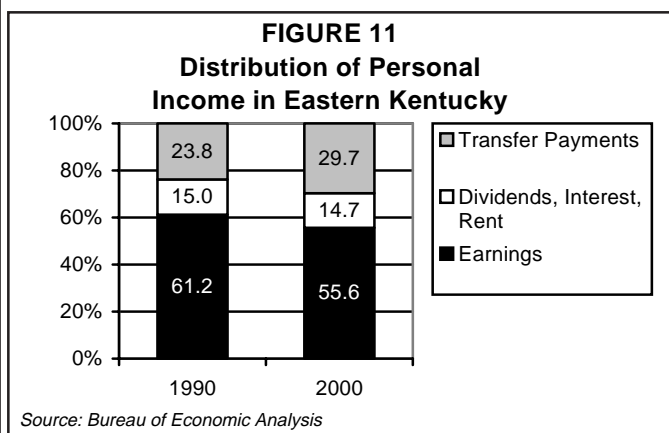
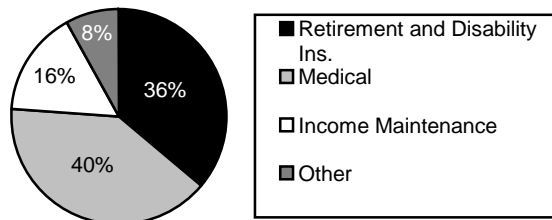


Figure 11 shows the percent of personal income derived from earnings dropping approximately 5 percentage points while income from dividends, interest, and rent remained unchanged. The loss in earnings was compensated by an increase in transfer payments as a source of income. Further breaking down transfer payments into its various components reveals that in 2000, the primary sources were income paid for retirement and

disability insurance through Social Security and Supplemental Security Income, a reflection of the aging of the population and high rates of disability among the nonelderly (see Figure 12). Approximately 45 percent of the age 45 and older population in eastern Kentucky depends or will depend on Social Security as their major source of income in retirement, compared to 34 percent in the rest of the state.<sup>18</sup> Also, as shown in Figure 12, medical services provide considerable resources for the region through the federal Medicare program and the state-federal Medicaid program, which serves indigent citizens of all ages. Furthermore, Medicaid payments comprise 61 percent of all medical transfer payments made in the region.

**FIGURE 12**  
**Sources of Transfer Payments,**  
**Eastern Kentucky, 2000**



Source: Bureau of Economic Analysis

These estimates pointedly illustrate the region's vulnerability to changes in the structure of government support for various transfer payment or entitlement programs. Welfare, for example, does not alleviate poverty. Indeed, many would argue that it merely perpetuates it. Transfer payments for medical services comprise 40 percent of the payments made to the region. Thus, the growth in the services sector shown in Figure 2, driven primarily by growth in health services, illustrates that not only are the recipients of these publicly funded health services vulnerable to cuts in Medicare and Medicaid, but the jobs that rely on these payments could also be at risk. According to one study, the profitability of hospitals in the Appalachian region had fallen by the end of the 1990s due to reductions in Medicare payments mandated by the Balanced Budget Act of 1997.<sup>19</sup>

### Cultural and Environmental Stewardship

The MDC framework suggests "...[a] comprehensive vision of cultural and environmental preservation [that] entails preserving and enhancing the natural, cultural, historical and built environment of these communities."<sup>20</sup> The Appalachian Mountains of eastern Kentucky are a coveted environmental asset, not just by the residents but by those who visit to enjoy their rich beauty and culture. The area is widely known for its bountiful contributions to the arts and for a network of artisans. These assets have not gone unnoticed by community leaders and inhabitants. According to survey results, approximately 40 to 50 percent of the residents of the area had visited a museum, festival, arts performance, or historic site in their home counties in the previous 12 months, in 1996, 1998, and 2000, compared with 46 to 55 percent of Kentuckians in the rest of the state during the same time period.<sup>21</sup> Further, a majority of eastern Kentucky households, approximately 70 percent, recycled items like glass containers, plastic containers, or news-

papers in 2000, compared with 67 percent in the rest of the state, indicating the presence of a strong awareness of and commitment to environmental protection.<sup>22</sup>

Coal mining and solid waste disposal are just two of the areas in which eastern Kentucky has long struggled with environmental and natural resource stewardship. While coal mining represents economic development opportunities for the area, the process of mining disturbs the land and surrounding communities in a variety of ways. The most extreme example of the environmental impact of mining came in 2000, when a Martin County coal slurry impoundment failed, sending 300 million gallons of sludge and waste into area creeks and eventually the Big Sandy River, where it affected drinking water supplies for a 60-mile stretch.<sup>23</sup> More typically, the successful reclamation of surface mined lands presents an ongoing challenge. A variety of state and federal laws and regulations are in place to ensure that coal mining and reclamation operations are conducted in a manner that protects the environment and provides for the safety of the public, but thousands of acres of unreclaimed land remains. Illegal dumping of municipal solid waste threatens groundwater, ecosystems, and public health. In 1991, Senate Bill 2 passed in the special legislative session, mandating, among other things, that counties make available disposal services to all citizens, including drop off centers and door-to-door collection. County-level data show the percentage of households participating in door-to-door garbage collection was an estimated 73 percent in 2001. By comparison, the statewide participation rate was 81 percent.<sup>24</sup>


### Civic Support for the Future

The final building block of economic development we borrow from MDC proposes that "...[a] comprehensive vision for a strong civic infrastructure entails creating a culture of civic decision-making and problem-solving that is forward-looking, accountable, and inclusive."<sup>25</sup> Ensuring open and accountable governments that value all voices and develop the civic capacity of communities to address their own challenges and opportunities are among the goals that MDC suggests southern communities focus their efforts upon. We find high levels of civic pride, safe communities, and trust of others throughout the Commonwealth, including the eastern region. In 2002, approximately 90 percent of eastern Kentuckians were extremely or somewhat proud of their communities, compared with 94 percent in the rest of the state.<sup>26</sup> Approximately 93 percent always or usually felt safe there compared with 96 percent elsewhere.<sup>27</sup> Over half, approximately 53 percent, said that you can usually trust others, compared with 60 percent in the rest of the state.<sup>28</sup> Approximately 58 percent of Kentuckians in both the eastern part and the rest of the state volunteered on a regular basis while approximately 74 and 82 percent made charitable contributions in that year, respectively.<sup>29</sup> Similar to the rest of the state, most adult eastern Kentuckians, approximately 86 percent, were registered to vote in 2002.<sup>30</sup>

The loss of children is not only a potential drain on the future workforce of the area, but it robs the region of potential community leaders. Fortunately, eastern Kentucky is relatively strong in this area. Approximately 46 percent of Kentuckians



in both the eastern region and the rest of the state had participated in a group to solve a problem or address a need in their community, while approximately 11 percent of both regions had actually led such a project.<sup>31</sup> However, eastern Kentucky trailed the rest of the state in its leadership development program participation with a rate of 22 percent, compared with 29 percent in the rest of the state.<sup>32</sup>

In the coming years, eastern Kentucky will have to draw upon its strengths to seize opportunities and confront the challenges that remain in its quest for a rising standard of living. Globalization and technological change compel all regions, including the 36 counties here, to draw upon comprehensive development strategies, such as that offered by MDC, Inc. Increasingly, communities will have to seek high-quality jobs, rather than just more jobs. This is especially true here, where jobs have increased but indicators of standard of living remain well below the rest of the state. In time, the area could capitalize on its considerable investments in the development of human capital, creating opportunities within that will hold youth to the region and compel young families to return to or make this exquisitely beautiful region their home. Some of the ingredients for future success, such as the region's technological infrastructure and a comparable civic capacity, are in place while other more basic amenities that are essential to development are yet to be fully realized. As many natives of eastern Kentucky will attest, this is the homeland of the heart, the place where they would be if they could be. In the years ahead, it will be the work of this region's pool of leadership talent to transform its emerging assets into opportunities that will enable those who want to live in eastern Kentucky to prosper there. 

## Notes

<sup>1</sup> MDC, Inc., *The Building Blocks of Community Development* (Chapel Hill, NC: Author, 2002).

<sup>2</sup> The counties included in this region are: Bath, Bell, Boyd, Bracken, Breathitt, Carter, Clay, Elliott, Fleming, Floyd, Greenup, Harlan, Jackson, Johnson, Knott, Knox, Laurel, Lawrence, Lee, Leslie, Letcher, Lewis, Magoffin, Martin, Mason, Menifee, Montgomery, Morgan, Owsley, Perry, Pike, Robertson, Rockcastle, Rowan, Whitley, and Wolfe.

<sup>3</sup> Distressed counties are those with poverty and unemployment rates 1.5 times the national rates and with per capita market incomes (i.e., per capita income less transfer payments) that are two thirds or less than the national rate. Lawrence E. Wood and Gregory A. Bischak, "Progress and Challenges in Reducing Economic Distress in Appalachia: An Analysis of National and Regional Trends Since 1960," (Washington, DC: Appalachian Regional Commission [ARC], 2000), and ARC, "ARC-Designated Distressed Counties, Fiscal Year 2000," 26 June 2003, 26 June 2003 <[www.arc.gov/index.do?nodeId=518](http://www.arc.gov/index.do?nodeId=518)>.

<sup>4</sup> MDC 5.

<sup>5</sup> Michal Smith-Mello, *Reclaiming Community, Reckoning with Change* (Frankfort: Kentucky Long-Term Policy Research Center [KLTPRC], 1995) 26.

<sup>6</sup> All estimates reflect constant 2000 dollars.

<sup>7</sup> MDC 7.

<sup>8</sup> The regional data reflect unweighted means of district-level scores for districts included in the 36-county eastern region.

<sup>9</sup> Amy Watts, "No One Left Behind?" in *The Road Ahead: Uncertainty and Opportunity in a Changed World* (KLTPRC, 2002) 78.

<sup>10</sup> MDC 8-9.

<sup>11</sup> Center for Information Technology Enterprise (CITE), *Kentucky Prepares for the Networked World* (Bowling Green, KY: Author, 2002) 10-11. The eastern Kentucky region referred to here is slightly different than the one in our analysis.

<sup>12</sup> CITE 11.

<sup>13</sup> Author's calculations from "Public Water Needs: 2000-2020," in Governor's Water Resource Development Commission (Governor's Commission), *Water-Resource: Development: A Strategic Plan*, Frankfort, KY, Oct. 1999: 6-8.

<sup>14</sup> Author's calculations from "Public Sewer Needs: 2000-2020," in Governor's Commission, *Water Resource Development: A Strategic Plan for Wastewater Treatment*, Frankfort, KY, March 2000: 10-12.

<sup>15</sup> Author's calculations from "Long-Range Highway Plan Element (FY 2005-2018)" in Kentucky Transportation Cabinet, *Statewide Transportation Plan (FY 1999-2018)*, Frankfort, KY, December 1999: 127-165.

<sup>16</sup> MDC 10.

<sup>17</sup> MDC 10.

<sup>18</sup> Author's calculations from "Planning for the Future," a 2000 Survey developed by the Kentucky Long-Term Policy Research Center and the UK Sanders-Brown Center on Aging and conducted by the UK Survey Research Center, which provides data on the state's population age 45 and older. The 90 percent confidence intervals for eastern and noneastern Kentucky are 39 percent to 52 percent and 31 percent to 37 percent, respectively.

<sup>19</sup> Jeffrey Stensland, Curt Mueller, and Janet Sutton, "An Analysis of the Financial Conditions of Health Care Institutions in the Appalachian Region and their Economic Impacts," ARC, Dec. 2002: 27.

<sup>20</sup> MDC 12.

<sup>21</sup> The 95 percent confidence intervals for eastern Kentucky in 1996, 1998, and 2000 are 40 to 55, 33 to 50, and 50 to 64, respectively, and for noneastern Kentucky they are 50 to 60, 42 to 51, and 57 to 66.

<sup>22</sup> These data were obtained from surveys by KLTPRC conducted by the UK Survey Research Center (UKSRC) in the fall of 1996, 1998, and 2000. Households were selected using random-digit dialings, a procedure giving every residential telephone line in Kentucky an equal probability of being called. Calls for the Fall 1996 survey were made from December 9, 1996, until January 8, 1997. Calls for the Fall 1998 survey were made from March 4 to April 6, 1999. Calls for the Fall 2000 survey were made from October 28 to November 21, 2000. Samples for the 1996, 1998, and 2000 surveys include, respectively, 676, 628, and 859 noninstitutionalized Kentuckians aged 18 or older. The margins of error in the 1996, 1998, and 2000 surveys are slightly less than 3.0, 3.91, and 3.3 percentage points, respectively, with a 95 percent confidence level for all three surveys. The 95 percent confidence interval for recycling rates in eastern and noneastern Kentucky in 2000 are 64 to 77 and 64 to 71, respectively.

<sup>23</sup> Editorial Board, "Public Deserves a Real Solution to Slurry Spills," *The Herald-Dispatch*, June 27, 2003.

<sup>24</sup> Author's calculations using data from *1994 County Annual Report Summary* from the Division of Waste Management (DWM), Department for Natural Resources and Environmental Protection (DNREP), 1-34 and Resource Conservation and the Local Assistance Branch of the DWM, DNREP, *Statewide Solid Waste Management Report, 2001 Update*, 10-14. Two counties, Floyd and Pike, didn't report household participation rates in 1994. These estimates are based solely on the reports of the 34 remaining counties in the region.

<sup>25</sup> MDC 13.

<sup>26</sup> The 95 percent confidence intervals for eastern and noneastern Kentucky are 86 to 95 and 93 to 96, respectively.

<sup>27</sup> The 95 percent confidence intervals for eastern and noneastern Kentucky are 89 to 97 and 94 to 97, respectively.

<sup>28</sup> The 95 percent confidence intervals for eastern and noneastern Kentucky are 45 to 61 and 56 to 63, respectively.

<sup>29</sup> The 95 percent confidence intervals for volunteerism in eastern and noneastern Kentucky are 50 to 66 and 54 to 62, respectively, and for charitable donations are 68 to 81 and 80 to 85, respectively.

<sup>30</sup> These data were obtained from surveys conducted by the UKSRC in the spring of 2002, using methods described in endnote 22. The calls were made from July 20 to August 16, 2002. The sample for the 2002 survey includes 882 noninstitutionalized Kentuckians 18 years of age or older. The margin of error for the survey is slightly less than 3 at the 95 percent confidence level. The 95 percent confidence intervals for eastern and noneastern Kentucky are 81 to 92 and 83 to 88, respectively.

<sup>31</sup> The 95 percent confidence intervals for group participation in eastern and noneastern Kentucky are 39 to 54 and 42 to 50, respectively, and for leading such a group are 7 to 16 and 8 to 12, respectively.

<sup>32</sup> Fall 1996, 1998, and 2000 surveys. See endnote 22 for more details. The 95 percent confidence intervals for eastern and noneastern Kentucky are 16 to 28 and 26 to 33, respectively.

# Scanning Kentucky

Emerging trends and issues that may affect the Commonwealth's future

## States Pass the Buck on College Costs

*Some states are shifting their current budget woes to public university students and their families*, reports the National Center for Public Policy and Higher Education in San Jose, California. Rising tuition rates and slipping state student aid are “the worst fiscal news for public higher education institutions and their students in at least a decade.”

Although incomes are rising by only 1 to 2 percent in most states, tuition at four-year public schools has leapt at a double-digit pace while total tuition aid is falling by similar rates in some states. In Arkansas, it's down 20 percent. State budget deficits are to blame. Nationally, states spend about 48 percent of their revenue on education, or about \$235 billion in 2001 for kindergarten through college, says the National Governors Association. Elementary and secondary education budgets are protected in many state constitutions, making them the last expense states will cut, but higher education is vulnerable. Over the years, contributions to higher education have eroded in many states, forcing public universities to rely more on tuition and fees for support. And the pressure to raise tuition is particularly intense for states that froze or even cut state university tuition during the go-go 1990s—money they have to recoup now.

**Implications for Kentucky.** Kentucky did not freeze tuition during the 1990s, but it's in step with current trends. A 2002 analysis by the Kentucky Higher Education Assistance Authority (KHEAA) found that while Kentucky tuition rates remained well behind national averages, the real cost of education here nearly doubled between 1990 and 2002, rising at an annual pace of 5.4 percent to 70.3 percent. Median household income, on the other hand, grew just 2.8 percent a year by 39.3 percent overall.

Today's budget woes have only made matters worse. Kentucky's community and technical colleges upped tuition 23.4 percent for the coming 2003-04 academic year. Morehead State (14.8 percent), Murray State (15.9 percent), and Northern Kentucky (16.4 percent) universities and the flagship University of Kentucky (UK) (15 percent) each opted for double-digit increases in undergraduate tuition following not-insignificant increases in the prior year. By comparison, the University of Louisville's 9 percent tuition hike for 2003-04 looks modest. Tuition to UK's professional schools—law, medicine, dentistry, pharmacy—will jump 25 percent this year. Kentucky State and Eastern State universities did not raise tuition this year.

Kentuckians may fare a bit better than most in regard to grant monies due to the availability of the KEES program, but

the current budget situation imperils the program's future. What's more, the federal Pell grants that so many low-income college students rely upon may not be there for many of them in the future. Already well behind meeting the actual cost of college, the Congressional Research Service reports that a new formula for financial aid will reduce the federal program by \$270 million and exclude some 84,000 would-be recipients nationwide from receiving awards.

State aid programs are falling short as well. By summer's end, KHEAA plans to release a study of unmet need in the state, a potentially valuable tool for legislators who must reckon with the budget shortfall with an eye to the state's future. Preliminary data, according to KHEAA economist Dr. Melvin Leterer, show that, exclusive of KEES, Kentucky's two main need-based financial aid programs (College Access Program and Kentucky Tuition Grant) fell some \$70 million short in 2002-03, in that students who qualified for the grants did not receive them because funds had been fully dispersed. Kentucky

is one of the few states that permits students to stack financial aid awards, so it is not unusual for students to receive awards from all three programs. Nonetheless, these data suggest the magnitude of unmet need among low-income students in the state is substantial and likely to grow.

More researchers are concluding that would-be students are being discouraged from pursuing an education by tuition rates they perceive as too costly. It's a perception Kentucky can ill afford, but rising enrollments suggest it is being out-weighted here by “education pays” economic realities.

## Uninsured Costs Get Business' Attention

*Employers are beginning to call for ways to deal with the problem of the uninsured* as health costs squeeze corporate profits and growing numbers of people without insurance push costs even higher, *The New York Times* reports. Long viewed as the responsibility of the government, some executives and benefits specialists are realizing that the 41 million Americans without insurance are costing business money.

A recent study by John Holahan and Jack Hadley of the Urban Institute quantifies part of the cost: employers and managed care companies paid \$1.5-\$3 billion through higher rates to cover part of the \$24 billion hospitals spent caring for uninsured patients in 2001. In addition, the federal taxes of employers help to pay for programs that cover the greatest share of hospital costs for the uninsured. “Employers are now subsidizing the uninsured and low-paying government programs like Medicare and Medicaid, to the detriment of their own employees,” said Kate Sullivan, director of health care policy at the U.S. Chamber of Commerce. “When the government programs pay 65 or 80 cents for a dollar



of hospital care, employers end up paying \$1.15 or \$1.25 for that care.”

**Implications for Kentucky.** As health care costs rise, the pressure for answers to the problem of uninsured Americans will continue to mount. Businesses—and taxpayers in general—are already meeting the cost of the uninsured, but often in the least efficient ways. The losses exacted by unmet health care needs come at an enormous cost to society, one that some data suggest is far greater than the cost of making basic health care available to uninsured Americans. (See our page 1 story.)

## Study Tallies Toll of Health Care Gap

**Allowing millions of Americans to live without health insurance costs the nation between \$65 and \$130 billion every year,** according to a panel of experts assembled by the National Academy of Sciences’ Institute of Medicine. For its report, this panel of experts adopted the approach federal agencies use to determine whether the benefits of taking steps to reduce a risk or harm justify the costs to society of implementing those measures. The panel found that each uninsured person loses the equivalent of \$1,645 to \$3,280 annually in wages and benefits, as well as the value of a higher quality of life and a longer lifespan. The new estimate does not include the cost of the medical care itself, which runs between \$34 and \$69 billion annually, or whatever it would cost to create a program to provide insurance coverage for all Americans.

**Implications for Kentucky.** As estimates of the cost of ignoring versus covering a large uninsured population grow more precise, we can anticipate knowing with greater certainty what the exact benefits to society would be were it to invest in universal health care coverage. These data suggest that, over the long-term, they would be considerable.

## More Are Old, Ill, and Uninsured

**The stock market’s decline has ravaged Americans’ 401(k) accounts and investments,** but *Business Week* points to the less



noticed erosion of another pillar of secure retirement: affordable health insurance. As medical inflation kicks in again, waves of employers are ditching or scaling back coverage for their retired workers. At this point, only about one third of U.S. seniors enjoys any sort of job-based coverage, down from nearly 50 percent a decade ago. Company plans are designed to wrap around Medicare, which doesn’t pay for prescription drugs or catastrophic expenses such as long-term care. A quarter of seniors buy some of this missing coverage through Medigap policies, but they rarely cover drugs. Another third of retirees, who have nothing but Medicare, are dangerously underinsured and often can’t afford to buy the drugs or other care they need. Now this underinsured population is set to balloon dramatically. As retiring Baby Boomers lose their company coverage, they will have to buy their own medical insurance or live without it.

**Implications for Kentucky.** Health insurance has become as central to retirement planning as savings and pension plans. Older Kentuckians are particularly vulnerable as they are generally poorer and less healthy than most Americans. Thus, the Commonwealth will continue to have a compelling interest in the well-being of this expanding portion of its population.

## Small Firms Short on Health Care

**Only 47 percent of establishments with fewer than 50 workers offer health insurance** compared to 97 percent of those with more than 100 employees, recent data show. In congressional testimony, Len M. Nichols of the Center for Studying Health System Change suggests states can increase coverage among workers in small firms by using their leverage in the marketplace. Because many states are the single largest employer, they can offer their employees a choice of health care plans and competitive rates rarely possible for small firms. Many states, including Kentucky, let county governments and even smaller administrative units opt into their state employee health plan. Nichols suggests it would be fairly easy for states to let small businesses do the same. Alternatively, some states have allowed small firms to form purchasing cooperatives for the purpose of buying health insurance.

**Implications for Kentucky.** In a state that is dominated by small employers, closing the health insurance gap for employees of these firms is a significant concern. Increasingly, states are using their buying clout as purchasers of health services for Medicaid recipients and state employees to leverage additional coverage for the citizens they serve. The National Conference of State Legislatures, for example, reports in *State Health Notes* that Illinois has adopted legislation permitting it to use its purchasing power to create a “discount drug club,” extending the benefits of lower-cost drugs to both its elderly and disabled citizens. Regional compacts that would enable states to combine their purchasing power have also been discussed. Efforts to fashion legislation that will extend the opportunity to buy into state health insurance pools to small employers and others may follow.

## Smaller May Be Better After All

**Economy of scale has not proven its worth in America’s schools,** Hanna Skandera and Richard Sousa report in *Hoover Digest*. In the 1950s America’s renewed interest in the quality of education generated many new ideas for educational improvement, including a more “scientific” approach to education. Education “experts” then believed that consolidation would mean economies of scale: greater efficiency and effectiveness. Franklin Keller’s 1955 book, *The Comprehensive High School*, recommended consolidation as did James Conant’s 1959 book, *The American High School*, which asserted that the small high school was the leading problem in education and its elimination should be a top priority. Entitlement programs and desegregation compliance in the 1960s further contributed to the consolidation movement.

Research today, however, contradicts the education experts of decades earlier who presumed that, among other things, large schools—high schools in particular—would offer a more diverse curriculum and more opportunities at a lower cost. Mounting evidence suggests that neither of these assertions has proven to be true. In fact, comprehensive research shows that small schools are superior to large schools on most measures and equal to them on the rest. A meta-analysis of 103 studies revealed that the academic achievement of students in small schools is at least equal to, and often superior to, that of large schools. A recent study documenting Chicago's small-school reform implementation, which included approximately 150 schools, showed improved standardized test scores or average test scores holding steady despite more students taking the test. Indeed, no available research suggests that large schools are superior to small schools in their achievement effects.

Also evident is marked improvement in achievement among ethnic minority students and students of low socioeconomic status. A July 1997 study reported that "disadvantaged students in small schools significantly outperformed those in large ones on standardized basic skills tests." A further study found that, "for both reading and math, small schools produce greater achievement gains than larger schools holding demographic and teacher characteristics constant."

**Implications for Kentucky.** Here, smaller, community-based schools continue to be shuttered in favor of consolida-

tion. However, the widespread alienation we found in large Kentucky high schools suggests that more, much more needs to be learned about the environments in which students perform best. Many school districts are routinely creating smaller learning environments for students who cannot adapt to these settings, addressing their unique needs outside of the mainstream of the larger school. At the polar opposite, so-called magnet schools offer small-school environments to those who excel. And private schools continue to offer high-quality education in a small-school setting to those whose parents can afford to pay for the privilege.

Ultimately, we may learn that the sterility of the institutions we have created to shepherd children into adulthood is at the root of the alienation that appears so widespread among adolescents. Young people consistently told our case study researchers for *Listening to Kentucky High Schools* that the quality they most appreciate in teachers is "caring," which is difficult to achieve in the large, impersonal, institutional environments typical of high schools. Indeed, only in the oases within these larger schools, special programs and the spheres of special teachers, did we see students flourishing. For school reform to advance and enable broad-based excellence and rising achievement, it is incumbent upon education leaders to learn more about this issue. If small schools indeed offer the optimum learning environment, as these data suggest, we must discover ways of replicating them within the infrastructure we have built. *ES*

# FORESIGHT KENTUCKY

LONG-TERM POLICY RESEARCH CENTER

111 St. James Court  
Frankfort, Kentucky 40601-8486  
Phone: 502-564-2851 or 800-853-2851  
Fax: 502-564-1412 or 800-383-1412  
E-Mail: [info@kltprc.net](mailto:info@kltprc.net)  
[www.kltprc.net](http://www.kltprc.net)

**Address Service Requested**

Presorted Standard  
U.S. Postage  
PAID  
Frankfort, KY  
Permit No. 14